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AID/FODAG

E.O. 11652: N/A

TAGS: OCON, IFAD

SUBJECT: EXECUTIVE BOARD MEETING, SECOND SESSION, INTERNATIONAL
FUND FOR AGRICULTURAL DEVELOPMENT (IFAD), APRIL 10-13, 1978

REF: ROME 6686

SUMMARY: DEPUTY ADMINISTRATOR OF AID, ROBERT NOOTER, SERVED AS U.S.
REP TO EXECUTIVZ BOARD (EB) MEETING. ALL AGENDA ITEMS WERE CONSIDERED
AND, WITH EXCEPTION OF ENCASHMENT ISSUE IN WHICH U.S. OBJECTIVES WERE
NOT FULLY ATTAINED, OUTCOME WAS GENERALLY SATISFACTORY FROM US. POINT
OF VIEW. AGENDA ITEMS PERTAINING TO APPOINTMENT OF EXTERNAL AUDITORS,
GENERAL LOAN CONDITIONS, AND INVESTMENT GUIDELINES FOR THE FUND'S
CASH RESOURCES WERE ADOPTED AFTER VIGOROUS DEBATE BUT LITTLE SUB-
STANTIVE CHANGE IN PRESIDENT'S PROPOSALS. LENING POLICIES AND
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CRITERIA WERE DISCUSSED AT LENGTH BUT ONLY NOTABLE CHANGES IN
PROVISIONAL DOCUMENT WERE BOARD RECOMMENDATIONS THAT DOLLARS 300 PER
CAPITA INCOME BE USED AS A GENERAL CUTOFF FOR THE FUND'S SOFTEST
TERMS (COMPARED TO DOLLARS 500/PER CAPITA PREVIOUSLY) AND THAT TWO-
THIRDS OF IFAD FUNDS BE USED FOR THIS CATEGORY. THE BOARD AGREED
TO CONSIDER ALL THREE LOANS SUBMITTED FOR APPROVAL DESPITE THE LATE-
NESS WITH WHICH DOCUMENTATION WAS DISTRIBUTED. HOWEVER, EACH OF
THE LOAN PROJECTS PROVOKED EXTENSIVE DISCUSSION INCLUDING CRITICAL
COMMENTS FROM A NUMBER OF CATEGORY II AND III REPRESENTATIVES.
AL-SUDEARY WAS VISIBLY SHAKEN BY IMPLIED CRITICISM OFHIFAD

MANAGEMENT, ALTHOUGH FINAL OUTCOME WAS GENERALLY FAVORABLE TO MANAGEMENT'S RECOMMENDATIONS. THE SRI LANKA AND TANZANIA PROJECTS WERE APPROVED; GUYANA PROJECT WAS "VIEWED FAVORABLY" BUT BOARD WANTED FURTHER SUBSTANTIATION AND CONSIDERATION OF 1 PERCENT TERMS WHICH SEVERAL REPRESENTATIVES THOUGHT WERE TOO LOW. THIS PROJECT WAS HELD OVER FOR JULY MEETING. PROCUREMENT GUIDELINES ALSO DEFERRED UNTIL JULY. END SUMMARY.

1. ADOPTION OF AGENDA. THE MAJOR ISSUE RAISED DURING DISCUSSION OF AGENDA WAS DELAY IN DISTRIBUTING PROJECT DOCUMENTATION FOR THE GUYANA AND TANZANIA LOANS. AFTER SOME URGING BY THE PRESIDENT THE MAJORITY OF MEMBERS INDICATED THEY WOULD NOT OBJECT IN THIS INSTANCE PROVIDED IN THE FUTURE ALL DOCUMENTATION WAS DISTRIBUTED AT LEAST THREE WEEKS IN ADVANCE.

2. MEMBERSHIP STATUS/CONTRIBUTIONS. THE KUWAIT REP, OPEC SPECIAL FUND DIRECTOR SHIHATA, STATED THAT ALGERIA'S INSTRUMENT OF RATIFICATION CONTRIBUTION HAD BEEN TRANSMITTED AND OPEC ALREADY HAD ALGERIAN CONTRIBUTION AND PROPOSED THAT ALGERIA BE ALLOWED, THEREFORE, TO TAKE ITS SEAT AS AN ALTERNATE. (NOTICE OF RECEIPT OF RATIFICATION FROM UN HAS NOT BEEN RECEIVED BY IFAD BY APRIL 14.) THE PRESIDENT SUPPORTED THIS PROPOSAL ON GROUNDS THAT CONFIRMATION OF ITS RATIFICATION WAS BOTH IMMINENT AND ASSURED NOTICE OF RECEIPT
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OF RATIFICATION. WITH RESPECT TO DELINQUENT CONTRIBUTIONS, THE ITALIAN REP APOLOGIZED FOR THE CONTINUED ELAY AND HOPED THAT THE ITALIAN CONTRIBUTION WOULD BE FORTHCOMING SHORTLY. TREASURER POINTED OUT THAT TOTAL OF DOLLARS 45 MILLION PAYMENTS STILL OUTSTANDING (WHICH INCLUDED IRAN, LIBYA, AND ITALY, ALTHOUGH THEY WERE NOT MENTIONED BY NAME).

3. DRAWDOWNS/ENCASHMENT. AS REPORTED SEPTTEL, THE OUTCOME AFTER LENGTHY AND ACRIMONIOUS DEBATE WAS A BOARD RESOLUTION IN WHICH U.S. WAS ONLY MEMBER WHICH WOULD NOT CONCUR. THE RESOLUTION LINKS ENCASHMENTS WITH ANTICIPATED DISBURSEMENTS IN ACCORDANCE WITH U.S. INSISTENCE BUT PROVIDES FOR AN INITIAL ENCASHMENT OF DOLLARS 100 MILLION. ALL OTHER MEMBERS, INCLUDING JAPAN AND UK, WHICH PAID IN PROMISSORY NOTES AND SUPPORTED U.S. POSITION AT LAST BOARD MEETING, NOW VIEWED PROJECTED COMMITMENTS AS A SATISFACTORY BASIS FOR ENCASHMENT AND THE FIGURE OF DOLLARS 100 MILLION AS COMPLETELY ACCEPTABLE. DESPITE U.S. EXPLANATIONS, THE MAJOIRITY OFHMEMBERS TENDED TO VIEW THE U.S. POSITION AS AT BEST UNREASONABLE AND AT WORST DELIBERATELY OBSTRUCTIONIST. OTHER MEMBERS DID, HOWEVER, ACCEDE TO U.S. POSITION THAT ENCASHMENT SHOULD BE LINKED TOHDISBURSEMENTS RATHER THAN COMMITMENTS, AND DOLLARS 100 MILLION FIGURE WAS CONSIDERABLE REDUCTION FROM MANAGEMENT'S ALTERNATIVE PROPOSALS.

4. INVESTMENT GUIDELINES. THE GENERAL GUIDELINES AND PROPOSAL FOR HOLDING CURRENCIES IN THE FORM OF COMPOSITE DEPOSITS BASED ON SDER CURRENCIES WAS DISCUSSED IN GENERAL TERMS AND ADOPTED BY THE BOARD

WITHOUT OBJECTION.

5. GENERAL CONDITIONS APPLICABLE TO LOAN AND GUARANTEE AGREEMENTS. ALTHOUGH NUMEROUS QUESTIONS WERE RAISED AND SEVERAL MEMBERS SUGGESTED MODIFICATIONS, ONLY A FEW MINOR DRAFTING CHANGES WERE INCORPORATED. AMONG THE ISSUES RAISED, CUBA AND MEXICO OBJECTED TO THE ARBITRATION PROVISIONS, BUT WERE OPPOSED BY KUWAIT, THE U.S., AND OTHERS. THERE WAS ALSO DISCUSSION OVER THE CURRENCY DENOMINATION OF LOANS (SECTION 4.01). MOST MEMBERS APPEAR TO AGREE ON THE U.S. DOLLAR WHICH IS THE CURRENCY SPECIFIED IN EACH LIMITED OFFICIAL USE
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OF THE THREE PROJECTS PRESENTED TO THE BOARD, BUT THE PRESIDENT PROMISED TO KEEP THE QUESTION UNDER REVIEW, INDICATING THE SDR WOULD BE PREFERABLE IF THE TECHNICAL ASPECTS OF REPAYMENTS IN SDR COULD BE WORKED OUT. IN RESPONSE TO A NUMBER OF OTHER QUESTIONS, THE ACTING LEGAL COUNSEL FOR THE FUND POINTED OUT THAT WHENEVER THE GENERAL CONDITIONS MAY NOT BE SUITABLE OR CONFLICT WITH PROVISIONS OF EACH LOAN AGREEMENT, THE LATTER WOULD OVERRIDE. CONSIDERATION OF GENERAL LOAN CONDITIONS ALSO LED INTO DISCUSSION OF THE APPROPRIATE BALANCE BETWEEN FOREIGN EXCHANGE AND LOCAL CURRENCY FINANCING. CANADA IN PARTICULAR QUESTIONED WHETHER LOCAL COST FINANCING SHOULD BE PROVIDED; BUT THE GENERAL VIEW OF MOST OTHERS WAS THAT THIS WAS APPROPRIATE ON THE ORDER OF FIFTY PERCENT AND PERHAPS EVEN HIGHER IN THE CASE OF MANY RURAL AGRICULTURAL PROJECTS.

6. LENDING POLICIES AND CRITERIA. AS EXPECTED, MOST OF THE DISCUSSION TURNED AROUND THE QUESTION OF ALLOCATION OF THE FUND'S RESOURCES BETWEEN THE LEAST DEVELOPED AND BETTER OFF LDC AND OVER THE ISSUE OF WHICH SET OF THE FUND'S LENDING TERMS SHOULD APPLY IN EACH CASE. THE MAJORITY OF MEMBERS CAME OUT STRONGLY IN FAVOR OF CHANNELING THE BULK OF THE FUND'S RESOURCES TO THE LEAST DEVELOPED AND FOR RESERVING THE SOFTEST TERMS FOR THIS GROUP. CONSIDERABLE DISCUSSION ENSUED OVER THE APPROPRIATENESS OF A PER CAPITA INCOME FIGURE FOR DETERMINING THE OVERALL ALLOCATION AND OVER THE APPROPRIATE PROPORTION OF THE FUND'S RESOURCES TO BE RESERVED FOR THE LEAST DEVELOPED COUNTRIES. A CONSENSUS WAS FINALLY REACHED THAT SOFTEST LOAN TERMS SHOULD GENERALLY BE RESERVED FOR COUNTRIES UNDER DOLLARS 300/CAPITA AND TWO-THIRDS OF THE FUND'S RESOURCES SHOULD BE USED FOR SOFTEST LOANS. THE TEXT OF THE BOARD'S RESOLUTION WILL READ AS FOLLOWS:

BEGIN TEXT: THE EB CONSIDERED THE LENDING POLICIES AND CRITERIA OF THE FUND AS SET OUT IN DOCUMENT EBH78/R10 AND THE VARIOUS SUB-LIMITED OFFICIAL USE
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MISSIONS BY MEMBER GOVERNMENTS, AS WELL AS THEIR COMMENTS MADE

IN ITS SECOND SESSION. THE EB DECIDED TO RECOMMEND THE ADOPTION OF THE LEDNING POLICIES AND CRITERIA AS CONTAINED IN DOCUMENT EB 78/R10 WITH THE FOLLOWING INTERPRETATION:

(A) THAT COUNTRY ALLOCATIONS SHOULD TAKE ACCOUNT OF DISTRIBUTION OF POPULATIONS BETWEEN COUNTRIES, AND PARTICULARLY OF THE DISTRIBUTION OF THE RURAL POOR;

(B) THAT SPECIAL LOANS ON HIGHLY CONCESSIONAL TERMS VISUALIZED IN PARA 31(I) WILL BE PROVIDED PREFERABLY BUT NOT EXCLUSIVELY TO COUNTRIES WHOSE PER CAPITA INCOME IS APPROXIMATELY DOLLARS 300 OR LESS (IN 1976 DOLLARS);

(C) THAT THESE SPECIAL LOANS WILL NOT EXCEED APPROXIMATELY TWO-THIRDS OF THE AMOUNT OF TOTAL LOANS PROVIDED BY THE FUND; AND

(D) THE EB WILL INTERPRET AND IMPLEMENT THESE POLICIES AND CRITERIA WITH THE NECESSARY FLEXIBILITY PROVIDED FOR IN THE POLICIES AND WILL REVIEW THEM AT A FUTURE DATE IN THE LIGHT OF ACTUAL EXPERIENCE. END TEXT

7. SRI LANKA PROJECT. DISCUSSION OF THE PROJECT TOOK UP THREE-QUARTERS OF THE THIRD DAY WITH VIRTUALLY EVERY MEMBER AND EVERY ALTERNATE INTERVENING WITH QUESTIONS OR COMMENTS. A COMMON THEME THROUGHOUT WAS DISGRUNTLEMENT OVER THE FACT THAT DOLLARS 4 MILLION OF THE LOAN APPEARED TO BE SIMPLY SUBSTITUTING FOR AN EQUAL PORTION OF THE ADB LOAN WHICH HAD ALREADY BEEN APPROVED. THE PRESIDENT AND ADB OBSERVER HAD GREAT DIFFICULTY IN PERSUADING MEMBERS, ESPECIALLY IN CATEGORY III, THAT IFAD'S RESOURCES WERE IN FACT ADDITIVE AND THAT THE ADB HAD ANTICIPATED THAT OTHER DONORS INCLUDING IFAD MIGHT JOIN THE PROJECT, BUT HAD APPROVED THE LOAN FOR DOLLARS 24 MILLION SIMPLY TO SPEED UP PROJECT STATUS. PRESIDENT ASSURED REPS THAT FUNDS WOULD NOT ENGAGE IN SUBSTITUTION FOR OTHER FINANCING, A POINT WHICH WAS DRIVEN HOME DURING THIS LENGTHY DEBATE. ULTIMATELY, PROJECT WAS APPROVED.

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8. GUYANA PROJECT. MAJOR ISSUE IN THIS PROJECT WAS APPROPRIATENESS OF 1 PERCENT TERMS IN VIEW OF HIGH PER CAPITA INCOME, AND LATENESS IN RECEIPT OF LOAN PAPERS. ULTIMATELY, FUND MANAGEMENT PROMISED A NEW FINANCIAL ANALYSIS AND RECOMMENDATION TO BOARD FOR JULY MEETING. BOARD GAVE ENDORSEMENT OF OTHER ASPECTS OF PROJECT BUT WITHHELD FINAL APPROVAL UNTIL TERMS ISSUE SETTLED.

9. TANZANIA PROJECT VIEWED FAVORABLY, BUT SEVERAL MEMBERS SAID EVEN LESS TIME AVAILABLE TO REVIEW THIS PROJECT. ULTIMATELY, UK REP REFUSED TO GRANT APPROVAL UNTIL AGREEMENT TO ADD REFERENCE IN MINUTES INDICATING UK, JAPAN, AND CANADA WOULD PROVIDE THEIR POSITION ON PROJECT BY MAY 15. U.S. REP INSISTED ON PROJECT APPROVAL BEING CONTINGENT ON IBRD APPROVAL OF CO-FINANCED IDA SHARE, WHICH WAS ACCEPTED.

10.#PROCUREMENT GUIDELINES WERE REVIEWED, BUT IT SOON BECAME APPARENT SEVERAL THORNY ISSUES ARE INVOLVED. LIBYA AND SAUDI ARABIA WANT AMENDMENTS WHICH IN ALL LIKELIHOOD PERMIT SECONDARY BOYCOTT ACTIONS, AND SOME MEMBERS WANT IFAD PROCUREMENT RULES TO APPLY TO CO-FINANCED PROJECTS WHICH MAY BE UNACCEPTABLE TO SOME COOPERATIVE AGENCIES. DECISION TAKEN TO DEFER DISCUSSION UNTIL JULY, WITH ALL SUGGESTED AMENDMENTS TO BE RECEIVED IN IFAD HEAD-QUARTERS BY MAY 13 FOR REDISTRIBUTION. BOYCOTT-RELATED LANGUAGE CAN BE EXPECTED TO BE MAJOR CONFRONTATION ISSUE IN JULY.

11. PRICE WATERHOUSE ADOPTED AS AUDITING FIRM AS RECOMMENDED.

12. PERSONNEL. THE PRESIDENT GAVE A BRIEF STATUS REPORT WITH REGARD TO PROGRESS ON HIRING STAFF AND THEN MADE THE CASE FOR A 3-1/2 PERCENT SALARY ADJUSTMENT TO COMPENSATE FOR LACK OF COMMISSARY PRIVILEGES. THE U.S. AND A NUMBER OF OTHER DELEGATES RAISED

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OBJECTIONS TO UNILATERAL ACTION ON THE PART OF IFAD, BUT SUPPORTED THE BASIC ONCEPT OF EQUITABLE TREATMENT FOR IFAD'S STAFF. THE OUTCOME WAS TO AGREE TO DEFER THE ISSUE UNTIL THE ICSC REPORTS ITS FINDING IN JULY AND TO ACCEPT THE ICSC'S CONCLUSIONS WITH PERHAPS A RETROACTIVE ADJUSTMENT.

13. SEVERAL ISSUES EMERGED IN DEBATE WHICH WILL NEED RESOLUTION IN FUTURE. MANY REPS TOOK VIEW IFAD SHOULD SEEK TO DEVELOP OWN PROJECTS RATHER THAN JUST COAFINANCING AND SEVERAL MENTIONED NEED FOR IFAD TO DEVELOP OWN IMAGE AND CHARACTER RATHER THAN SIMPLY AUGMENT FUNDS OF OTHER INSTITUTIONS. U.S. REP POINTED OUT IFAD STAFF REALLY NOT ADEQUATE TO FUNCTION AS TOTALLY SELF-SUFFICIENT AGENCY AND HIS IMPRESSION WAS IFAD WAS NOT CREATED TO BE MINI-IBRD. ALSO, IFAD ROLE IN NATIONAL AGRICULTURAL POLICIES WILL BE SUBJECT OF FUTURE DEBATE, WITH SOME MEMBERS PERHAPS EXPECTING MORE THAN IFAD CAN DELIVER IN THIS AREA. AND LAST, SOME MEMBERS THOUGHT IFAD PROJECTS SHOULD BE LIMITED ONLY TO FOOD PRODUCTION, WHILE LARGER GROUP THOUGHT FINANCINGHRELATED TO RURAL DEVELOPMENT ACTIVITIES GENERALLY WAS APPROPRIATE AS LONG AS CENTRAL PROJECT FOCUS WAS AGRICULTURE. (AT BEST, IFAD MAY HAVE THREE MORE PROJECTS PLUS GUYANA PROJECT FOR EB TO CONSIDER AT NEXT MEETING JULY 10-13, 1978.)

14. IN GENERAL, BOARD DEBATES WERE SPIRITED, LENGTHY, AND CRITICAL. DEGREE OF PROJECT EXAMINATION WAS OBVIOUS SURPRISE TO AL-SUDEARY, WHO APPEARED CHASTENED BY WHAT HE NO DOUBT FELT WAS CRITICISM OF MANAGEMENT PERFORMANCE. THIS EXPERIENCE WILL NO DOUBT MAKE HIM MUCH MORE CONSERVATIVE IN MOVING FORWARD, WHICH COULD BE USEFUL IF IT LED TO BETTER PROJECT PREPARATION BUT HARMFUL IF IT UNDULY SLOWED IFAD PROJECT PREPARATION. MOST REP INTERVENTIONS SEEMED MOTIVATED

BY CONSTRUCTIVE ATTITUDES, WITH ONLY LIMITED POLITICAL MOTIVES
APPARENT. THERE WAS NOT MUCH DISTINCTION IN SUBSTANCE OF
DEBATES BETWEEN VIEWS OF DIFFERENT CATEGORIES OF COUNTRIES
ON IFAD BOARD, PARTICULARLY CATEGORIES I AND II, WITH OPEC
MEMBERS GENERALLY TAKING MOST CONSERVATIVE POSITIONS ON MOST
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ISSUES. ON THE WHOLE, THERE IS REASONABLE PROSPECT OF
CONSTRUCTIVE BOARD ALTHOUGH DEBATES WILL CONTINUE TO BE
DRAWN-OUT AFFAIRS.

15. SECRETARIAT'S REPORT OF THE SECOND SESSION OF IFAD'S EB
IS EXPECTED TO BE PREPARED AND DISTRIBUTED IN 2-3 WEEKS.
GARDNER UNQUOTE CHRISTOPHER

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